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JUN 19 2007

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

INDIANA UTILITY
REGULATORY COMMISSION

PETITION OF INDIANA MICHIGAN)
POWER COMPANY, AN INDIANA)
CORPORATION, FOR AUTHORITY TO)
INCREASE ITS RATES AND CHARGES)
FOR ELECTRIC UTILITY SERVICE; FOR)
APPROVAL OF NEW SCHEDULES OF)
RATES, RULES AND REGULATIONS; AND)
FOR AUTHORITY TO ESTABLISH AND)
IMPLEMENT RATE ADJUSTMENT MECHANISMS)
TO TRACK CERTAIN MATTERS RELATING TO)
RELIABILITY ENHANCEMENT, DEMAND-SIDE)
MANAGEMENT/ ENERGY EFFICIENCY)
PROGRAMS, OFF-SYSTEM SALES MARGINS,)
PJM, ENVIRONMENTAL COMPLIANCE, AND)
CAPACITY EQUALIZATION SETTLEMENT.)

4 3 3 0 6
CAUSE NO. _____

VERIFIED PETITION

TO THE INDIANA UTILITY REGULATORY COMMISSION:

Indiana Michigan Power Company (I&M) respectfully petitions the Indiana Utility Regulatory Commission (Commission) for authority to increase its retail rates and charges for electric service rendered by I&M in the State of Indiana; for approval of new schedules of rates and related rules and regulations; for approval to establish and implement rate adjustment mechanisms to track certain matters relating to reliability enhancement, demand-side management/energy efficiency programs, off-system sales margins, PJM, environmental compliance and capacity equalization settlements. In support of this petition, I&M represents the following:

1. I&M's Corporate Status. I&M, a wholly-owned subsidiary of American Electric Power Company, Inc. (AEP), is a corporation organized and existing under the laws of the State of Indiana, with its principal offices at One Summit Square, Fort Wayne, Indiana. I&M is a member of the East Zone of the AEP System, which is operated on an integrated basis pursuant to the AEP Interconnection Agreement, a FERC-approved agreement, originally formed in 1951 and subsequently amended, that defines the sharing of costs and benefits associated with certain AEP East Zone affiliates' respective generating plants (AEP Pool Agreement). I&M is engaged in, among other things, rendering electric service in the States of Indiana and Michigan. I&M owns, operates, manages and controls plant and equipment within the States of Indiana and Michigan that are in service and used and useful in the generation, transmission, distribution and furnishing of such service to the public. I&M has maintained and continues to maintain its properties in an adequate state of operating condition.

2. I&M's Service Territory. I&M provides electric service to approximately 580,000 retail customers within a service area covering approximately 8,260 square miles in northern and east-central Indiana and southwestern Michigan. In Indiana, I&M provides retail electric service to approximately 454,000 customers in the following counties: Adams, Allen, Blackford, DeKalb, Delaware, Elkhart, Grant, Henry, Huntington, Jay, LaPorte, Madison, Noble, Randolph, St. Joseph, Steuben, Tipton, Wabash, Wells and Whitley. In Michigan, I&M currently provides retail electric service to approximately 126,000 customers. In addition, I&M serves customers at wholesale in the States of Indiana and Michigan. I&M's electric system is an integrated and interconnected entity that is operated within Indiana and Michigan as a single utility.

3. I&M's Electric Utility Properties. I&M renders electric service by means of electric production, transmission and distribution plant, as well as general property, equipment and related facilities, including office buildings, service buildings and other similar properties which are used and useful in the generation, purchase, transmission, distribution and furnishing of electric energy for the convenience of the public (collectively referred to as "Utility Properties"). I&M's Utility Properties are classified in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission ("FERC") and approved and adopted by this Commission.

4. I&M's "Public Utility" Status. I&M is a "public utility" under Ind. Code (IC) § 8-1-2-1 and is subject to the jurisdiction of this Commission in the manner and to the extent provided by the Public Service Commission Act, as amended, and other pertinent laws of the State of Indiana. I&M is also subject to the jurisdiction of the Michigan Public Service Commission and the FERC as to electric service provided by I&M to retail customers in Michigan and to wholesale customers, respectively. I&M considers that the provisions of IC §§ 8-1-2-6, 38, 39, 42a, 61, 68 and 71 and 170 Ind. Admin. Code (IAC) 4-8-1 *et seq.*, among others, to be applicable to this petition.

5. I&M's Existing Rates. I&M's existing retail rates in Indiana were established pursuant to the Commission's orders in Cause No. 39314 based upon test year operating costs for the twelve months ended December 31, 1991, adjusted for fixed, known and measurable changes. The petition initiating Cause No. 39314 was filed with the Commission on November 12, 1991. Therefore, in accordance with IC § 8-1-2-42(a), more than fifteen months has passed since the filing date of I&M's most recent request for a general increase in its basic rates and charges.

6. I&M's Operating Results Under Existing Rates. I&M's existing retail electric rates are and will be unjust, unreasonable and confiscatory in that the revenues provided thereby are and will be insufficient to cover I&M's necessary and reasonable operating expenses and to provide the fair return to which I&M is entitled by law to earn upon the fair value of its electric properties used and useful for rendering utility service to its retail electric customers. It has been nearly 16 years since I&M has requested a general rate increase and, since that time, there have been significant changes in the underlying revenue requirements, including operation and maintenance expenses and capacity equalization settlements under the AEP Pool Agreement. New retail electric rates will allow I&M to continue to attract capital required for additions, replacements and improvements to its Utility Properties at a reasonable cost; to maintain and support I&M's credit; and to assure confidence in I&M's financial soundness. Additionally, I&M submits that the fair value of its plant in service has increased and will continue to materially increase, causing the fair value to be substantially in excess of the net book value for such property.

7. Statutory Allegation as to Threshold Increase. For purposes of IC §§ 8-1-1-3(e) and 8-1-2-61(b), I&M expects that its request for an increase in its basic rates and charges will exceed \$20,000,000.

8. Depreciation Rates. I&M's case-in-chief will support continuation of the depreciation rates that were approved in the Commission's June 13, 2007 Order in Cause No. 43231.

9. Rate Adjustment Mechanisms. I&M proposes to establish in this base rate case rate adjustment mechanisms for certain costs¹ and revenues that are variable or beyond the direct control of the company. Each of the proposed rate adjustment mechanisms, discussed in greater detail below, would be tracked monthly and will be adjusted annually; the annual filing will include a reconciliation of over- or under-recoveries from the prior period.

A. Reliability Enhancement Tracker. As part of this Cause, I&M seeks authority to implement a rate adjustment mechanism to track incremental costs associated with modernization of its generation, transmission and distribution systems and addressing long-term workforce issues. I&M will propose comprehensive programs that will enhance the safety, reliability and efficiency of its power resources and delivery infrastructure to satisfy the increasingly sophisticated needs of its customers. Through the prudent application of 21st Century technology, I&M can address its aging distribution and sub-transmission systems, address substation capacity issues and improve reliability. I&M's specific plans for each of these areas will be presented as part of its case-in-chief. A rate adjustment mechanism to track increasing reliability and workforce costs while providing I&M contemporaneous cost recovery is a reasonable method for addressing modernization of its generation, transmission and distribution systems and its long-term workforce issues.

B. Demand-Side Management/Energy Efficiency Program Tracker. As part of this Cause, I&M seeks authority to implement a rate adjustment mechanism to track costs, including treatment of lost revenues, associated with demand-side management,

¹ In the context of I&M's proposed rate adjustment mechanisms, the term "costs" is being used broadly and some references may include expenses, a return on and of capital and/or other items allowable under Indiana law. The specifics of each rate adjustment mechanism will be set forth in I&M's case-in-chief.

energy efficiency and demand response programs (DSM). I&M proposes to expand its DSM programs in a manner that will provide opportunities for each customer class. I&M is presently undertaking a Market Potential Study and is collaborating with the Office of Utility Consumer Counselor regarding the Market Potential Study and a Smart Metering Pilot Program. A rate adjustment mechanism to track these activities is a reasonable method for supporting and encouraging the development of additional DSM programs.

C. Off-System Sales Margins Tracker. As part of this Cause, I&M seeks authority to implement a rate adjustment mechanism to track changes in margins associated with off-system wholesale power sales and share in the results with retail customers. Within the context of corporate governance and oversight, AEP, on behalf of I&M, endeavors to successfully operate in today's competitive wholesale market so that the value of the AEP System generating fleet can be optimized through market transactions (off-system sales). The level of off-system sales and the margins fluctuate as a function of changing wholesale market conditions and other factors. A rate adjustment mechanism and a sharing mechanism to track those margins will encourage AEP to optimize its market participation and will better ensure that customers benefit by sharing in the results of AEP's focused efforts on behalf of I&M.

D. PJM Tracker. As part of this Cause, I&M seeks authority to implement a rate adjustment mechanism to track changes in I&M's share of costs/revenues resulting from AEP's membership in PJM Interconnection, LLC (PJM). I&M integrated its operation with PJM in October, 2004. The proposed PJM Tracker would include components to track costs and revenues incurred to provide service to retail customers. Certain PJM-related costs and revenues fluctuate beyond I&M's control and a rate adjustment

mechanism to track changes will better ensure that the rates paid by I&M's customers track these changes and will promote continued development of an efficient power market.

E. Environmental Compliance Tracker. As part of this Cause, I&M seeks authority to implement a rate adjustment mechanism to track certain environmental costs, including I&M's share of gains or losses from emission allowance transactions, expenses relating to the consumption of emission allowances, and expenses for chemical agents consumed in connection with environmental compliance efforts. Emission allowance expense and the costs of chemical agents are variable costs that fluctuate consistent with the level of fuel and a rate adjustment mechanism to track changes will better ensure that the rates paid by I&M's customers track these changes.

F. Capacity Equalization Settlement Tracker. As part of this Cause, I&M seeks authority to implement a rate adjustment mechanism to track changes in charges and credits associated with capacity payments and receipts under the AEP Pool Agreement. Members of the AEP System in AEP's East Zone share the responsibility for providing sufficient generating resources to meet the needs of their respective customers. Under the AEP Pool Agreement, members that provide more than their share of generation are compensated through payments from members that provide less than their share (Capacity Equalization Settlement). The respective shares vary over time and are determined monthly based on members' load and generation capacity resources. Because the AEP Pool Agreement is a dynamic arrangement affected by the addition and retirement of generating capacity and changes in members' loads, I&M's Capacity Equalization Settlement fluctuates over time. The proposed rate adjustment mechanism

will better ensure that the rates paid by I&M's customers track the changing Capacity Equalization Settlement under the dynamic operation of the AEP Pool Agreement.

10. Prehearing Conference and Preliminary Hearing. Pursuant to 170 IAC 1-1.1-15(b), I&M requests that a date for a prehearing conference and preliminary hearing be promptly set by the Commission for the purpose of fixing a test year, adjustment methods, rate base valuation and adjustment cutoff dates, and a procedural schedule.

11. Test Year and Cutoff Dates. I&M proposes to base the rate relief requested in this Cause upon a test year ended September 30, 2007, as adjusted for fixed, known and measurable changes over a representative period, and to value all elements of rate base as of September 30, 2007 (with the cost of plant, to the extent not offset by growth in the depreciation reserve, updated to the date of the final evidentiary hearing). A test year ending September 30, 2007, with appropriate adjustments, is necessary and appropriate in order for certain recent changes in I&M's cost profile to be reflected in a representative historic test year. I&M proposes to adjust its test year operating results to reflect fixed, known and measurable changes for various items from operating revenues, operation and maintenance expenses, depreciation and amortization expenses, taxes other than income taxes, state income taxes, federal income taxes, rate base adjustments and other fixed, known and measurable changes.

12. Customer Notification. In accordance with IC § 8-1-2-61(a), I&M will publish notice of the filing of this Petition in a newspaper of general circulation published in each Indiana county in which I&M renders service. In accordance with 170 IAC 4-1-18(C), I&M will promptly notify each of its Indiana residential customers of the filing of this Petition and of its request for rate relief. When I&M has determined the specific amount of

the requested rate adjustment based on the procedures determined at the prehearing conference and preliminary hearing, I&M will give each of its Indiana residential customers further notice summarizing the nature and extent of the proposed changes. These notices will be provided via bill messaging, bill inserts, or similar mailings.

13. Schedule of Rates and Charges and Tariff Terms. I&M will propose a number of revisions to its existing schedule of rates and charges and to its terms and conditions for electric service. I&M will summarize the proposed changes in its prefiled testimony, which changes may include, without limitation, increases in non-recurring charges and other changes for improved clarity and administrative simplification. The proposed rate schedules and revised tariff will be included in the exhibits that I&M will offer as evidence in this proceeding.

14. Attorneys for Petitioner. The names and addresses of I&M's duly authorized representatives, to whom all correspondence and communications concerning this petition should be sent, are as follows:

Teresa E. Morton (Atty. No. 14044-49)
Barnes & Thornburg LLP
11 South Meridian Street
Indianapolis, Indiana 46204
Phone: (317) 231-7716
Fax: (317) 231-7433
Email: tmorton@btlaw.com

Steven T. Nourse²
American Electric Power Service Corporation
1 Riverside Plaza
29th Floor
Columbus, Ohio 43215

² I&M will file a motion for admission of Mr. Nourse pro hac vice in accordance with 170 IAC 1-1.1-7(c) and Indiana Admission and Discipline Rule 3, Section 2.

Phone: (614) 716-1608
Fax: (614) 716-2014
Email: stnourse@aep.com

WITH A COPY TO:

Kent D. Curry
Indiana Michigan Power Company
One Summit Square
P.O. Box 60
Fort Wayne, Indiana 46801
Phone: (260) 425-2119
Fax: (260) 425-2303
Email: kdc Curry@aep.com

WHEREFORE, I&M respectfully requests that the Commission promptly conduct a prehearing conference and preliminary hearing, make such investigation and hold such hearings as it may deem advisable and, thereafter, promptly make and enter appropriate orders in this Cause:

- (I) determining that the test year in this proceeding shall be the twelve months ended September 30, 2007, adjusted for fixed, known and measurable changes over a representative period.
- (II) determining that all elements of rate base shall be valued as of September 30, 2007 (with the cost of plant, to the extent not offset by growth in the depreciation reserve, updated to the date of the final evidentiary hearing);
- (III) finding that the existing rates for electric service rendered by I&M in the State of Indiana are unjust, unreasonable, insufficient, confiscatory, and inadequate to provide a fair and reasonable rate of return on the fair value of I&M's jurisdictional electric rate base;

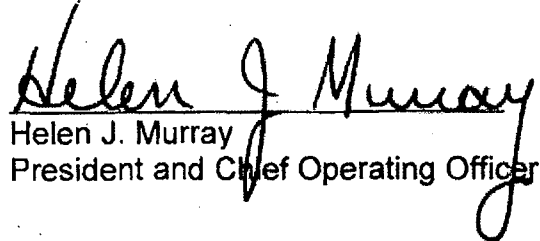
- (IV) determining and, by order, fixing increased rates and charges to be imposed, observed and followed in the future by I&M in lieu of those so found to be unjust, unreasonable, insufficient and confiscatory;
- (V) authorizing and approving the filing by I&M of new schedules of increased rates and charges for electric service so as to provide just, reasonable, sufficient and nonconfiscatory rates;
- (VI) finalizing the depreciation accrual rates approved in Cause No. 43231 on June 13, 2007 for I&M's electric utility property and authorizing I&M to continue using such depreciation rates in determining its just and reasonable electric service rates;
- (VII) approving the establishment and implementation of rate adjustment mechanisms to track certain matters relating to reliability enhancement, demand-side management/energy efficiency programs, off-system sales margins, PJM, environmental compliance and capacity equalization settlements;
- (VIII) approving and authorizing I&M to implement various changes in the terms, conditions and provisions of I&M's tariff for electric service rates as proposed in I&M's evidence; and
- (IX) granting such other and further relief to I&M as the Commission may deem appropriate and proper.

Dated this 18 day of June, 2007.

Respectfully submitted,

INDIANA MICHIGAN POWER COMPANY

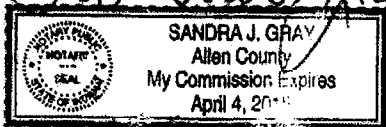
By:


Helen J. Murray
President and Chief Operating Officer

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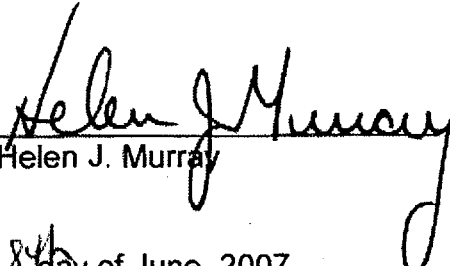
Attorneys for Indiana Michigan
Power Company



STATE OF INDIANA)
) SS:
COUNTY OF ALLEN)

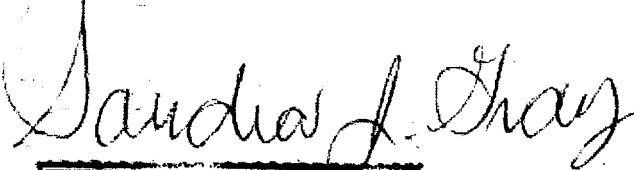
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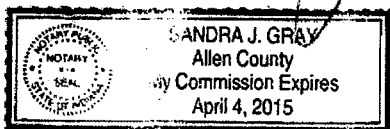
Helen J. Murray, being first duly sworn, upon oath, deposes and says that she is the President and Chief Operating Officer of Indiana Michigan Power Company, the Petitioner in the above-entitled Cause; that as such she executed the above and foregoing Petition and has authority so to do; that she has read said Petition and knows the contents thereof; and that the statements and representations therein contained are true to the best of her knowledge, information and belief.


Helen J. Murray

Subscribed and sworn to before me this 18th day of June, 2007.

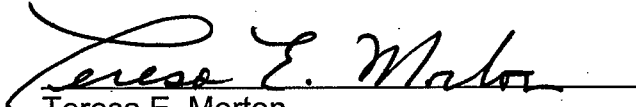
[Notary Info]





CERTIFICATE OF SERVICE

The undersigned hereby certifies that two copies of the foregoing Verified Petition was served by hand delivery upon the Office of the Utility Consumer Counselor, 100 North Senate Avenue, Room N501, Indiana Government Center North, Indianapolis, Indiana 46204, this 19th day of June, 2007.


Teresa E. Morton